

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name HERRICK DISTRICT LIBRARY	County OTTAWA
Audit Date 6/30/05	Opinion Date 9/19/05	Date Accountant Report Submitted to State: 11/15/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

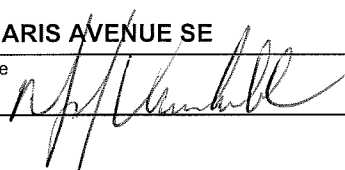
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) REHMANN ROBSON			
Street Address 2330 EAST PARIS AVENUE SE	City GRAND RAPIDS	State MI	ZIP 49546
Accountant Signature 		Date 11/15/05	

HERRICK DISTRICT LIBRARY

HOLLAND, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

HERRICK DISTRICT LIBRARY

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

September 19, 2005

Members of the District Library Board
Herrick District Library
Holland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Herrick District Library, as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Herrick District Library. Our responsibility is to express opinions on these financial statements based on our audit.

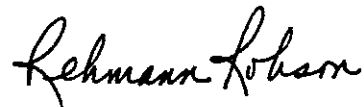
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Herrick District Library as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2005 on our consideration of Herrick District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Herrick District Library's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of Herrick District Library's basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Herrick District Library (the "Library"), we offer readers of the Herrick District Library financial statements this narrative review and analysis of the financial activities for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

This year's financial statements reveal the Library's operational income was above budget by \$21,411 (0.4%); our income projections were very good. It also shows general operational expenditures below budget by \$363,350 (6.8%); we were able to provide services using less money than we anticipated we could. This is actually not good news because a significant reduction in our budgeted expenditures was due to the need of several employees to utilize family medical leave time which reduced our planned payroll expense. We also delayed several equipment purchases because time simply did not permit us to make wise choices.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library's financial statements. The Library's basic financial statements comprise three components:

1. Government-wide statements
2. Fund financial statements, and
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The *statement of net assets* presents information on all of the Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Library is accounted for in governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and the government-wide statements.

The Library maintains three governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund, and permanent fund each of which are major funds for financial reporting purposes as defined by GASB Statement #34.

The Library adopts an annual appropriated budget for the General fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 12-16 of this report.

The Library maintains two proprietary funds. Financial statements can be found on pages 17-19 of this report.

The Library also maintains fiduciary funds, which can be found on page 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Library's financial statements. The notes to the financial statements can be found on pages 21-30 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Herrick District Library Net Assets

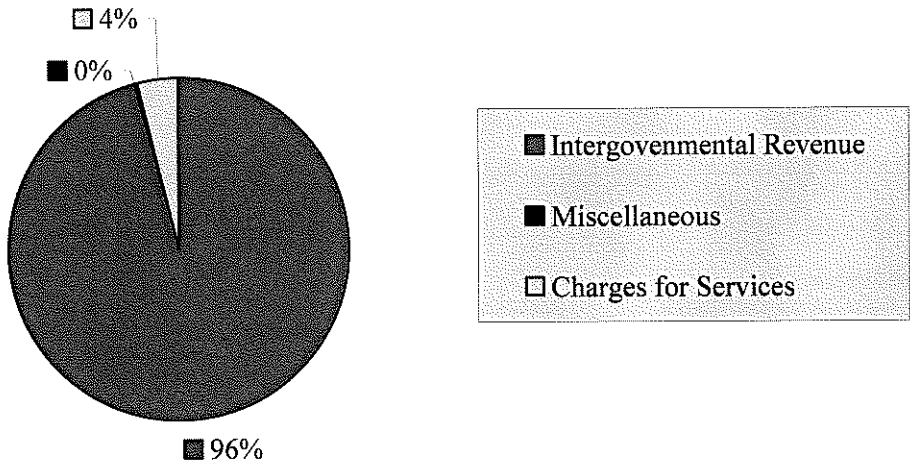
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Current and other assets	\$ 6,154,910	\$ 5,702,163	\$3,128	\$1,978	\$ 6,158,038	\$ 5,704,141
Capital assets	11,225,064	10,776,971	-	-	11,225,064	10,776,971
Total assets	17,379,974	16,479,134	3,128	1,978	17,383,102	16,481,112
Long-term liabilities outstanding	7,466,684	6,840,293	-	-	7,466,684	6,840,293
Other liabilities	280,736	187,929	164	267	280,900	188,196
Total liabilities	7,747,420	7,028,222	164	267	7,747,584	7,028,489
Net assets:						
Invested in capital assets, net of related debt	3,950,064	4,131,971	-	-	3,950,064	4,131,971
Unrestricted	5,682,490	5,318,941	2,964	1,711	5,682,490	5,320,652
Total net assets	\$ 9,632,554	\$ 9,450,912	\$2,964	\$1,711	\$ 9,635,518	\$ 9,452,623

Herrick District Library Change in Net Assets

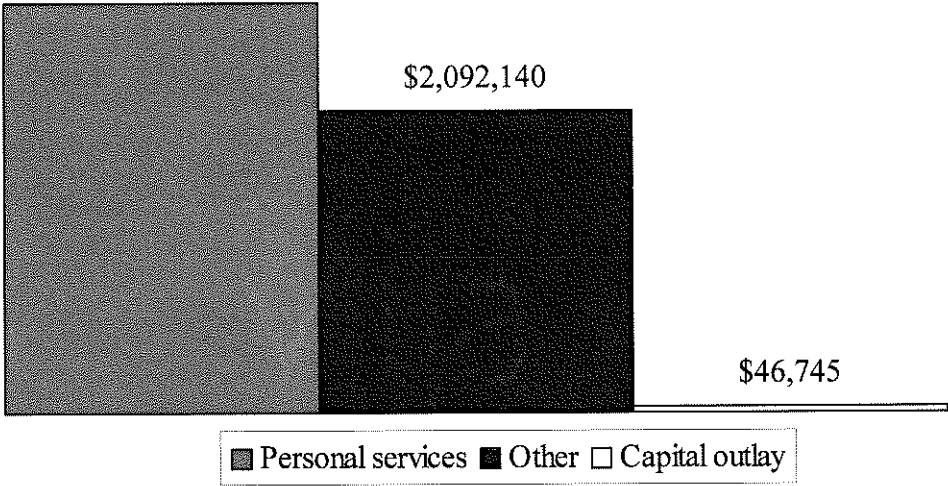
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Revenue:						
Program revenue:						
Charges for services	\$ 177,941	\$ 193,529	\$5,583	\$3,750	\$ 183,524	\$ 197,279
Operating grants	14,576	20,432	-	-	14,576	20,432
General revenue:						
Intergovernmental revenue	4,673,984	4,805,904	-	-	4,673,984	4,805,904
Investment earnings	263,567	(397,861)	-	-	263,567	(397,861)
Total revenue	5,130,068	4,622,004	5,583	3,750	5,135,651	4,625,754
Expenses:						
Library services	5,139,659	4,803,246	4,949	5,403	5,144,608	4,808,649
Total expenses	5,139,659	4,803,246	4,949	5,403	5,144,608	4,808,649
Increase (decrease) before transfers	(9,591)	(181,242)	634	(1,653)	(8,957)	(182,895)
Transfers	(400)	(400)	400	400	-	-
Increase (decrease) in net assets	(9,591)	(181,642)	1,034	(1,253)	(8,957)	(182,895)
Net assets – beginning of year	9,642,145	9,632,554	1,930	2,964	9,644,075	9,635,518
Net assets – end of year	\$9,632,554	\$9,450,912	\$2,964	\$1,711	\$9,635,518	\$9,452,623

The 2005 reduction in investment earnings is the result of market value declines in the value of donated stock.

Revenues by Source - Governmental Funds



Expenditures - Governmental Fund



General Fund Budgetary Highlights

There were no modifications from the original to the amended budget for the general fund during the current year.

Capital Assets and Debt Administration

Capital Assets

Herrick District Library Capital Assets (net of depreciation)

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2005</u>
Land	\$ 617,975	\$ 617,975
Construction in progress	-	303
Office equipment and furniture	789,830	750,667
Building and improvements	9,639,768	9,248,859
Equipment and machinery	177,491	159,167
Total	<u>\$11,225,064</u>	<u>\$ 10,776,971</u>

Additional information on the Library's capital assets can be found in note 3 on page 26 of this report.

Long-term debt

Herrick District Library Outstanding Debt

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2005</u>
Capital lease agreements	<u>\$7,275,000</u>	<u>\$6,645,000</u>

Additional information on the Library's long-term debt can be found in Note 5 on pages 29 and 30 of this report.

Economic Factors and Next Year's Budgets and Rates

The revenue to public libraries from the State of Michigan was projected to fall at several different points in time this year as the State wrestled with reductions in its revenue; however, State support to public did not fall this year. The news regarding state aid to public libraries is, however, not good. It stalled at \$0.435 per capita, right where it was last year and down from previous aid of \$0.50 per capita. The services we purchase from the Lakeland Library Cooperative with this support, our shared computer catalog and interloan delivery, continue to experience increased demand from our public, with no increase in state funding to support it. These services cannot continue to grow without money to support them. We will either find new revenue or re-dedicate existing revenue to support the growth of this interlibrary sharing in the next couple years.

District Court fines from the violation of the State penal code continue to decrease. It is worth noting that Allegan County's collections have been stable, while Ottawa County's fines have decreased. The decision of the State Legislature to permit local municipalities to adopt ordinances to parallel the State's penal code almost ten years ago has disrupted the public libraries' collection of State penal fines. Local enforcement officials are now fining violators based upon local ordinances, permitting those fines to become revenue to the County and its political jurisdictions rather than to the County's public libraries. We cannot tell how much longer this decline will occur.

While these issues are important to public libraries across the state, they represent less than 10% of Herrick's revenue and are difficult for us to alter. The variations that occur in these revenues do not threaten our core services. They do, however, cause us to question how we will maintain the enhanced services that our patrons have come to value.

The Library's operating millage, 84% of this year's revenue, is where we would suggest reader's efforts are best spent to understand our financial situation and to begin to understand the Library's future.

The district library agreement under which the Herrick Library operates requires us to apply the lowest reduction fraction from the four municipalities to the library millage levied by each of the municipalities. This means that every taxpayer in all four jurisdictions pays exactly the same millage rate. It also means that some communities are being assessed a millage rate that does not keep pace with inflation as the table below illustrates:

<u>MUNICIPALITY</u>	<u>MILLAGE THIS YEAR</u>	<u>MILLAGE LAST YEAR</u>	<u>DIFFERENCE AS PERCENT</u>
Holland City	1,482,784	1,473,221	9,563 (0.65%)
Holland Township	1,554,845	1,508,079	46,766 (3.10%)
Laketown Township	365,745	348,732	17,013 (4.88%)
<u>Park Township</u>	<u>1,001,301</u>	<u>929,735</u>	<u>71,566 (7.69%)</u>
All Jurisdictions	4,404,675	4,259,767	144,908 (3.40%)

We can see a time coming when one municipality, maybe more, will actually provide less income to the Library's budget than it did in the previous year.

Beyond this, the Library's financial future is further complicated by the tax increment financing plans that have been approved throughout the district. As more plans are approved to spur economic development, the Library's operating millage revenue from the property involved is fixed for years. When such plans involve the addition of residential property, the Library faces an increased demand for service without the taxes to support it.

Financial Analysis of the Government's Funds

If the Library could not see improvement in its operating revenue coming in 2010, planning for the future would be bleak. However, when a part of the Library's construction debt is paid off in 2010, the residual capital millage that is subtracted from the total "rolled back" voted 1.5 mils might permit the operational millage to return to the original voted 1.1 mils. Given this opportunity and a healthy fund balance, the Board has approved budgets that exceed the revenue from the Library's annual operating millage. This has permitted the Library to maintain the level of service its customers enjoy.

Every year the Board will need to assess whether the taxpayers are well served by that action or not. The level of use of our buildings this year suggests our taxpayers are enthusiastic about their libraries:

<u>LIBRARY</u>	<u>CIRCULATION THIS YEAR</u>	<u>CIRCULATION LAST YEAR</u>	<u>DIFFERENCE AS PERCENT</u>
Herrick	965,747	904,936	6.7%
<u>North Branch</u>	<u>221,299</u>	<u>196,040</u>	<u>12.9%</u>
Both	1,187,046	1,100,976	7.8%

Given this reality, we believe the Board has made the right decision.

This situation would be challenging in and of itself but is even more so because the Library, like other public libraries, is in the middle of significant transitions in formats to inform and entertain. We are challenged to make the maximum use of electronic, digital resources while we maintain our traditional level of print materials; we are challenged to add new audiovisual formats while our users are still enjoying earlier formats. These challenges may be managed comfortably when finances are adequate; however, in our tight financial situation we need to move cautiously and sometimes abruptly when we commit to new formats. Our budget does not permit otherwise.

It is important to point out that the \$387,427 decrease in our combined fund balance this year compared to the prior year was due in large part to a decrease in the value of the holdings within the Library's endowment. These earnings from private gifts to the Library endowment are depended on to make the Library more appealing. We are fortunate to have had dividend income from a stock gift received years ago from Mr. Ken Herrick whose father, Ray, was the donor of the first Herrick Library building. This income has been used along with money from the Friends of the Library to bring programs of interest to the community, programs that our tax revenue does not stretch to include.

Requests for Information

This financial report is designed to provide a general overview of Library 's finances for all those with an interest in the Library 's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Herrick District Library, 300 South River Avenue, Holland, MI 49423.

HERRICK DISTRICT LIBRARY

STATEMENT OF NET ASSETS

JUNE 30, 2005

	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
ASSETS :			
Cash on hand	\$ 1,183	\$ -	\$ 1,183
Cash and pooled investments	4,180,530	1,895	4,182,425
Investments	1,100,700	-	1,100,700
Accrued interest	14,904	-	14,904
Receivables - Net:			
Accounts	399,179	83	399,262
Taxes	5,667	-	5,667
Land	617,975	-	617,975
Construction in progress	303	-	303
Capital assets, net of accumulated depreciation	10,158,693	-	10,158,693
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Total assets	16,479,134	1,978	16,481,112
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LIABILITIES:			
Accounts payable	114,846	267	115,113
Accrued payroll and benefits	30,672	-	30,672
Accrued interest	42,411	-	42,411
Long term liabilities			
Earned employee compensated absences	195,293	-	195,293
Due within one year	700,000	-	700,000
Due after one year	5,945,000	-	5,945,000
<hr/>			
Total liabilities	7,028,222	267	7,028,489
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NET ASSETS			
Invested in capital assets, net of related debt	4,131,971	-	4,131,971
Unrestricted	5,318,941	1,711	5,320,652
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Total net assets	\$ 9,450,912	\$ 1,711	\$ 9,452,623
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The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	Total
Governmental activities						
Library services	\$ (4,803,246)	\$ 193,529	\$ 20,432	\$ (4,589,285)	\$ -	\$ (4,589,285)
Business-type activities						
Employee's vending fund	\$ (5,403)	\$ 3,750	\$ -	-	(1,653)	(1,653)
General revenues						
Intergovernmental				4,805,904	-	4,805,904
Investment earnings				(397,861)	-	(397,861)
Transfers - internal activities				(400)	400	-
Total general revenues and transfers				4,407,643	400	4,408,043
Change in net assets				(181,642)	(1,253)	(182,895)
Net assets - beginning of year, as restated				9,632,554	2,964	9,635,518
Net assets - ending of year				\$ 9,450,912	\$ 1,711	\$ 9,452,623

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

GOVERNMENTAL FUNDS

JUNE 30, 2005

	GENERAL	CAPITAL PROJECTS	ENDOWMENT SPECIAL REVENUE	TOTAL
ASSETS				
Cash	\$ 1,183	\$ -	\$ -	\$ 1,183
Cash and pooled investments	2,759,668	298,522	927,047	3,985,237
Investments	-	-	1,100,700	1,100,700
Accrued interest	14,904	-	-	14,904
Receivables - Net:				
Accounts	76,524	-	-	76,524
Taxes	5,667	-	-	5,667
Total assets	\$ 2,857,946	\$ 298,522	\$ 2,027,747	\$ 5,184,215
LIABILITIES:				
Accounts payable	\$ 114,846	\$ -	\$ -	\$ 114,846
Accrued payroll and benefits	30,672	-	-	30,672
Total liabilities	145,518	-	-	145,518
FUND BALANCES				
Unreserved				
Designated				
For reinvestment	-	-	1,445,151	1,445,151
Replacement of equipment	53,592	-	150,000	203,592
Undesignated	2,658,836	298,522	432,596	3,389,954
Total fund balances	2,712,428	298,522	2,027,747	5,038,697
Total liabilities and fund balances	\$ 2,857,946	\$ 298,522	\$ 2,027,747	\$ 5,184,215

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY
RECONCILIATION OF THE FUND BALANCES ON THE BALANCE SHEET
FOR THE GOVERNMENTAL FUNDS TO THE NET ASSETS OF THE GOVERNMENTAL
ACTIVITIES ON THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Fund balances- total governmental funds	\$ 5,038,697
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in the governmental activities are not financial resources and
therefore are not reported in the funds.

Add - land	617,975
Add - capital assets	13,229,261
Deduct - accumulated depreciation	(3,070,265)

Some assets reported in the statement of net assets do not provide current financial
resources and therefore are not included in fund balance on the fund financial statements.

Add - Penal fines not considered to be available for the fund statements	322,655
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Certain liabilities, such as leases payable, are not due and payable in the current
period and therefore are not reported in the funds.

Deduct leases payable	(6,645,000)
Deduct accrued interest on long term liabilities	<u>(42,411)</u>

Net assets of governmental activities	<u>\$ 9,450,912</u>
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The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2005

	GENERAL	CAPITAL PROJECTS	ENDOWMENT SPECIAL REVENUE	TOTAL
REVENUES:				
Intergovernmental	\$ 4,783,462	\$ -	\$ -	\$ 4,783,462
Charges for services, fines and fees	193,344	-	-	193,344
Investment earnings	82,347	6,921	(487,129)	(397,861)
Miscellaneous	867	-	19,750	20,617
Total revenues	5,060,020	6,921	(467,379)	4,599,562
EXPENDITURES:				
Current:				
Personal services	2,847,704	-	-	2,847,704
Other services and charges	2,073,434	-	15,231	2,088,665
Capital outlay	46,745	3,475	-	50,220
Total expenditures	4,967,883	3,475	15,231	4,986,589
Revenues over (under) expenditures	92,137	3,446	(482,610)	(387,027)
OTHER FINANCING SOURCES (USES):				
Transfers in	7,000	-	-	7,000
Transfers (out)	(400)	-	(7,000)	(7,400)
TOTAL OTHER FINANCING SOURCES (USES)	6,600	-	(7,000)	(400)
NET CHANGE IN FUND BALANCES	98,737	3,446	(489,610)	(387,427)
FUND BALANCES - Beginning of year	2,613,691	295,076	2,517,357	5,426,124
FUND BALANCES - End of year	\$ 2,712,428	\$ 298,522	\$ 2,027,747	\$ 5,038,697

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds **\$ (387,427)**

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the
statement of activities, the cost of these assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add - capital outlay	73,107
Deduct - depreciation expense	(507,747)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment
reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term debt	630,000
--	---------

Some revenue reported in the statement of activities does not provide current financial
resources and therefore is not reported as revenues in the statement of revenues,
expenditures and changes in fund balances.

Add - change in penal fines receivable in the general fund	22,442
--	--------

Some expenses reported in the statement of activities do not require the use of current
financial resources and therefore are not reported as expenditures in the funds.

Deduct - disposal of undepreciated capital assets	(13,453)
Add - decrease in accrued interest on long term liabilities	1,436

Change in net assets of governmental activities **\$ (181,642)**

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND

YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
REVENUES:				
Intergovernmental	\$ 4,812,159	\$ 4,812,159	\$ 4,783,462	\$ (28,697)
Charges for services, fines and fees	185,250	185,450	193,344	7,894
Investment earnings	40,000	40,000	82,347	42,347
Miscellaneous	1,200	1,000	867	(133)
Total revenues	5,038,609	5,038,609	5,060,020	21,411
EXPENDITURES:				
Current:				
Personal services	2,972,005	2,983,605	2,847,704	135,901
Other services and charges	2,276,488	2,264,888	2,073,434	191,454
Capital outlay	82,740	82,740	46,745	35,995
Total expenditures	5,331,233	5,331,233	4,967,883	363,350
Revenues over (under) expenditures	(292,624)	(292,624)	92,137	384,761
OTHER FINANCING SOURCES (USES):				
Transfers in	75,000	75,000	7,000	(68,000)
Transfers out	(400)	(400)	(400)	-
TOTAL OTHER FINANCING SOURCES (USES)	74,600	74,600	6,600	(68,000)
NET CHANGE IN FUND BALANCES	(218,024)	(218,024)	98,737	316,761
FUND BALANCES - Beginning of year	2,613,691	2,613,691	2,613,691	-
FUND BALANCES - End of year	\$ 2,395,667	\$ 2,395,667	\$ 2,712,428	\$ 316,761

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

JUNE 30, 2005

	EMPLOYEE VENDING ENTERPRISE	COMPENSATED ABSENCES INTERNAL SERVICE
ASSETS		
Cash and pooled investments	\$ 1,895	\$ 195,293
Accounts receivable - net	83	-
Total assets, all current	1,978	195,293
LIABILITIES		
Current		
Accounts payable	267	-
Long-term		
Earned employee compensated absences	-	195,293
Total liabilities	267	195,293
NET ASSETS		
Unrestricted	\$ 1,711	\$ -

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2005

	EMPLOYEE VENDING ENTERPRISE	COMPENSATED ABSENCES INTERNAL SERVICE
OPERATING REVENUES:		
Use fees and charges for services	\$ 3,750	\$ 3,608
OPERATING EXPENSES:		
Operations	5,403	3,608
Operating income (loss)	(1,653)	-
TRANSFERS:		
Transfers in	400	-
NET INCOME (loss)	(1,253)	-
NET ASSETS		
Beginning of year	2,964	-
NET ASSETS		
End of year	\$ 1,711	\$ -

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2005

	EMPLOYEE VENDING ENTERPRISE	COMPENSATED ABSENCES INTERNAL SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from interfund services provided	\$ -	\$ 195,293
Receipts from customers	3,830	-
Payments to suppliers	(5,300)	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(1,470)	195,293
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfer in	400	-
CASH AND POOLED INVESTMENTS - Beginning of year	2,965	-
CASH AND POOLED INVESTMENTS - End of year	\$ 1,895	\$ 195,293
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (1,653)	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	80	-
Accounts payable	103	-
Compensated absences payable	-	195,293
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (1,470)	\$ 195,293

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

STATEMENT OF NET ASSETS FIDUCIARY FUNDS

JUNE 30, 2005

	AGENCY FUND
<u>ASSETS</u>	
CURRENT ASSETS:	
Cash and pooled investments	\$ 47,598
Accounts receivable	561
Total current assets	\$ 48,159
<u>LIABILITIES</u>	
LIABILITIES:	
Other accrued liabilities and deposits	\$ 48,159

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Herrick District Library (the "Library") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

The Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Library. There are no component units to be included. Criteria for including a component unit include entities for which the Library is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Agency funds, however, do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for the accumulation of resources and disbursements for construction projects of governmental funds.

The Endowment Special Revenue fund is used to account for the balances and activities from contributions made to provide funds for library operations.

The Vending *Enterprise Fund* is used to account for the balances and activities of the various activities benefiting employees which is financed through user charges which support this service.

The *Internal Service Fund* accounts for the accumulation of both the liability and the resources to pay the compensated absences liability at year end.

Additionally, the Library reports the following fund types:

Agency Funds are used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standard do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise fund include cafeteria expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Budgets and Budgetary Accounting

Comparisons to budget are presented for the general fund as required by generally accepted accounting principles. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the District Library Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the Library are governed by Public Act 621, which was followed for the year ended June 30, 2005. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the District Library Board.
7. Budgets for expenditures are adopted at the fund level.
8. Budgeted amounts are as originally adopted, or as amended by the District Library Board.

Cash and Pooled Investments

For purposes of the statement of cash flows, the Library considers all assets held in the cash and investment pool to be cash equivalents because the investments are not identifiable to specific funds and the assets can be withdrawn at anytime, similar to a demand deposit account.

Investments

Investments consist of donated common stock. Investments are carried at fair value.

Statutory Authority

State statutes authorize the District to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets of the Library is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-20
Buildings	40
Office furniture and equipment	5-7
Vehicles	7-10

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

HERRICK DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

Intergovernmental Revenue

The Library's primary source of funding is intergovernmental revenue. This funding includes contributions by the City of Holland, Holland Charter Township, Park Township and Laketown Township based on collection of a unified millage on property values. This revenue source also includes Library State Aid and fines collected by other governments.

Accrued Vacation Time

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts.

Accrued vacation leave is recorded as an internal service fund liability at June 30, 2005.

Interfund Transactions

During the course of normal operations, the Library has numerous transactions between funds, including expenditures and transfers of resources to provide services and subsidies. The accompanying financial statements generally reflect such transactions as revenues and expenditures and transfers. The amounts recorded as subsidies, advances, or equity contributions are determined by the Library.

Transfers In	Transfers Out		Total
	General Fund	Endowment Special Revenue Fund	
Major Governmental Fund:			
General Fund	\$ -	\$ 7,000	\$ 7,000
Major Enterprise Fund:			
Employee Vending	400	-	400
Total	\$ 400	\$ 7,000	\$ 7,400

Transfers are used to move revenues earned in the Endowment Special Revenue and General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2005, the Library carried commercial insurance to cover all risks of losses. The Library has had no settled claims resulting from these risks that exceeded their commercial coverage in the past fiscal year.

HERRICK DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

2. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to deposits and investments are as follows:

	Governmental Activities	Business- Type Activities	Fiduciary Activities	Total
Cash and pooled investments	\$4,180,530	\$1,895	\$47,598	\$4,230,023
Investments	1,100,700	-	-	1,100,700
Total	<u>\$5,281,230</u>	<u>\$1,895</u>	<u>\$47,598</u>	<u>\$5,330,723</u>

Cash and pooled investments consist of both depository account balances and certificates of deposits. Investments consist of donated common stock. A current year decline in the market value of the common stock of approximately \$560,000 has resulted in the deficit balance reported in library operating grants on the statement of activities. Market value of the donated common stock is currently in excess of the market value of the stock on the donation date.

Deposits and certificates of deposit are in four (4) financial institutions located in Michigan. State law limits the Library's depository options to financial institutions located in Michigan. All accounts are in the name of the Library.

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments:

<u>Investment</u>	<u>Fair Value</u>
Common Stock	
Tecumseh Products Common Stock-A	\$823,200
Tecumseh Products Common Stock-B	277,500

Investment and Deposit Risk

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of District's specific financial institutions, qualified mutual funds qualified external investment pools as identified in Note 1 (summary of significant accounting policies). Although the Library is not allowed to purchased common stock under Michigan Law, holding donated common stock is allowable. The Library investment policy does not have specific limits in excess of state law on investment credit risk. There is no rating associated with the common stock identified above.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. The Library minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the Library's investment policy. As of year end, \$3,765,227 of the Library's bank balance of \$4,265,227 was exposed to custodial credit risk because it was uninsured and uncollateralized.

HERRICK DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the District's investment policy. Of the above common stock, the Library is not exposed to custodial credit risk because the securities are held by the Library in the Library's name.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The Library's investment policy does not have specific limits in excess of state law on concentration of credit risk. 100% of the Library's investments are Tecumseh Products common stock as reported above.

3. CAPITAL ASSETS

Changes in Capital Assets for the year ending June 30, 2005, are as follows:

	Balance July 1, 2004	Additions	Dispositions	Balance June 30, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 617,975	\$ -	\$ -	\$ 617,975
Construction in progress	-	303	-	303
Total capital assets, not being depreciated	<u>617,975</u>	<u>303</u>	<u>-</u>	<u>618,278</u>
Capital assets, being depreciated				
Improvements other than buildings	191,433	-	-	191,433
Buildings	11,365,406	3,172	-	11,368,578
Equipment and machinery	538,170	43,127	47,846	533,451
Office equipment and furniture	1,111,460	26,505	2,469	1,135,496
Total capital assets being depreciated	<u>13,206,469</u>	<u>72,804</u>	<u>50,315</u>	<u>13,228,958</u>
Less accumulated depreciation for:				
Land improvements	51,151	8,948	-	60,099
Buildings	1,865,920	385,133	-	2,251,053
Equipment and machinery	360,679	50,467	36,862	374,284
Office equipment and furniture	321,630	63,199	-	384,829
Total accumulated depreciation	<u>2,599,380</u>	<u>507,747</u>	<u>36,862</u>	<u>3,070,265</u>
Total capital assets, being depreciated, net	<u>10,607,089</u>	<u>(434,943)</u>	<u>13,453</u>	<u>10,158,693</u>
Governmental activities capital assets, net	<u>\$11,225,064</u>	<u>\$ (434,640)</u>	<u>\$ 13,453</u>	<u>\$10,776,971</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Library Services	<u>\$507,747</u>

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

4. DEFINED BENEFIT PENSION PLAN

Municipal Employees Retirement System of Michigan

The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined pension plan providing retirement, death and disability benefits covering full-time and part-time Library employees. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The Library is required to contribute at an actuarially determined rate; the current rate is 10.16% of annual covered payroll. Participating employees are not required to contribute to the Plan. The contribution requirements of the Library are established and may be amended by the MERS Retirement Board.

The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

The Library's Annual Pension Cost and Net Pension Obligation for the current year are as follows:

Annual pension cost	\$202,843
Contributions made	<u>(202,843)</u>
Decrease in net Pension Obligation	-
Net Pension Obligation beginning of year	<u>-</u>
Net Pension Obligation end of year	<u>\$ -</u>

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$172,988	100%	\$ -
2004	179,267	100%	-
2005	202,843	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$2,870,019	\$3,777,574	\$907,555	76%	\$1,559,194	58%
12/31/03	3,124,434	4,085,463	961,029	76%	1,606,096	60%
12/31/04	3,377,173	4,341,350	964,177	78%	1,695,922	57%

5. LONG-TERM DEBT

The following is a summary of debt transactions of the Library for the year ended June 30, 2005:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Capital lease payable to the City of Holland Building Authority, due in annual installments of \$225,000 to \$485,000, through May 1, 2017, interest at 4.00% to 5.5%. Repaid in 2005.	\$ 350,000	\$ -	\$350,000	\$ -	\$ -
Capital lease payable to the City of Holland Building Authority, due in annual installments of \$125,000 to \$350,000, through May 1, 2009, interest at 4.00% to 4.375%.	1,525,000	-	225,000	1,300,000	275,000

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Capital lease payable to the City of Holland Building Authority, due in annual installments of \$55,000 to \$475,000, through May 2017, interest at 2.00% to 4.25%.	\$5,400,000	\$ -	\$ 55,000	\$5,345,000	\$425,000
Compensated absences	191,685	3,608	-	195,293	-
Total	<u>\$7,466,685</u>	<u>\$ 3,608</u>	<u>\$630,000</u>	<u>\$6,840,293</u>	<u>\$700,000</u>

The following is a schedule of annual future minimum lease payments required under the capital leases payable at June 30, 2005:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 700,000	\$ 248,771	\$ 948,771
2007	760,000	227,383	987,383
2008	785,000	202,533	987,533
2009	805,000	174,433	979,433
2010	435,000	144,332	579,332
2010-2014	2,285,000	466,442	2,751,442
2015-2017	875,000	55,465	930,465
Total	<u>\$6,645,000</u>	<u>\$1,519,359</u>	<u>\$8,164,359</u>

6. RESTATEMENTS

Beginning net assets as of July 1, 2004 have been restated (increase of \$300,213) on the statement of activities to properly reflect the accrual of penal fines at year end. Activities previously accounted for in the special revenue fund and permanent fund have been combined into the newly created Endowment Special Revenue Fund to properly reflect the expendable nature of balances accounted for in this fund.

HERRICK DISTRICT LIBRARY

COMBINING BALANCE SHEET FIDUCIARY FUNDS

JUNE 30, 2005

	AGENCY FUNDS		TOTALS
	IMPREST PAYROLL	EMPLOYEES' FLEXIBLE BENEFITS PLAN	
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and pooled investments	\$ 42,519	\$ 5,079	\$ 47,598
Accounts receivable	561	-	561
Total current assets	\$ 43,080	\$ 5,079	\$ 48,159
<u>LIABILITIES AND FUND EQUITY</u>			
LIABILITIES:			
Other accrued liabilities and deposits	\$ 43,080	\$ 5,079	\$ 48,159
Total liabilities	\$ 43,080	\$ 5,079	\$ 48,159

HERRICK DISTRICT LIBRARY

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

YEAR ENDED JUNE 30, 2005

	BALANCE JULY 1, 2004	ADDITIONS	REDUCTION	BALANCE JUNE 30, 2005
<u>IMPREST PAYROLL</u>				
<u>ASSETS</u>				
Cash and pooled investments	\$ 16,442	\$ 7,226,654	\$ 7,200,577	\$ 42,519
Accounts receivable	-	561	-	561
Total assets	\$ 16,442	\$ 7,227,215	\$ 7,200,577	\$ 43,080

<u>LIABILITIES</u>				
Other accrued liabilities and deposits	\$ 16,442	\$ 2,321,768	\$ 2,295,130	\$ 43,080

<u>EMPLOYEES' FLEXIBLE BENEFITS PLAN</u>				
<u>ASSETS</u>				
Cash and pooled investments	\$ 3,547	\$ 23,490	\$ 21,958	\$ 5,079

<u>LIABILITIES</u>				
Other accrued liabilities and deposits	\$ 3,547	\$ 23,490	\$ 21,958	\$ 5,079

<u>TOTAL - ALL FUNDS</u>				
<u>ASSETS</u>				
Cash and pooled investments	\$ 19,989	\$ 7,250,144	\$ 7,222,535	\$ 47,598
Accounts receivable	-	561	-	561
Total assets	\$ 19,989	\$ 7,250,705	\$ 7,222,535	\$ 48,159

<u>LIABILITIES</u>				
Other accrued liabilities and deposits	\$ 19,989	\$ 2,345,258	\$ 2,317,088	\$ 48,159



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

September 19, 2005

Members of the District Library Board
Herrick District Library
Holland, Michigan

We have audited the financial statements of the government activities, the business-type activities, each major fund and the aggregate remaining fund information of Herrick District Library as of and for the year ended June 30, 2005, and have issued our report thereon dated September 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Herrick District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Herrick District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Library Board and management, and is not intended to be and should not be used by anyone other than these specified parties.